DOCUMENT RESUME

ED 246 755 HE 017 439

| | |
|---|---|
| TITLE | National Commission on Student Financial Assistance. Hearing before the Subcommittee on Postsecondary Education of the Committee on Education and Labor. House of Representatives, Ninety-Eighth Congress, First Session. |
| INSTITUTION | Congress of the U.S., Washington, D.C. House Committee on Education and Labor. |
| PUB DATE | 10 Nov 83 |
| NOTE | 39p.; Document contains small print. |
| PUB TYPE | Legal/Legislative/Regulatory Materials (090) -- Reports - Evaluative/Feasibility (142) |
| EDRS PRICE | MF01 Plus Postage. PC Not Available from EDRS. |
| DESCRIPTORS | *Academic Standards; Access to Education; *Advisory Committees; Agency Role; College Choice; Economically Disadvantaged; Educational Opportunities; *Federal Aid; Federal Legislation; Hearings; Higher Education; Low Income Groups; Middle Class Students; *Needs Assessment; *Policy Formation; *Student Financial Aid; Student Loan Programs |
| IDENTIFIERS | Blue Ribbon Commissions; College Costs; *Guaranteed Student Loan Program; *National Comm on Student Financial Assistance |

ABSTRACT

Hearings concerning research done for the National Commission on Student Financial Assistance are presented, along with the Commission's recommendations. The recommendations concern modifications of the current law to facilitate greater access for low- and middle-income students and to improve the quality of postsecondary education in the country. The hearings are part of fact finding leading to reauthorization of the Higher Education Act of 1965, as amended. Areas investigated by the Commission include the following: the definition of satisfactory academic progress, the in-school interest subsidy provision of the Guaranteed Student Loan (GSL) program; and the insurance premium and special allowance provisions of the GSL program. The Commission's recommendations are aimed at qualitatively improving the current federal program for student financial aid. It is noted that Commission findings show that the low-income and minority students have been greatly affected by reductions in student financial assistance. The Commission also found the response to the reduction in and elimination of social security benefits grossly inadequate. The Commission concludes that the federal financial aid program does affect college access and choice. Specific findings and recommendations are included. (SW)

**********
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
**********

HE

# NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

ED246755

## HEARING

BEFORE THE

## SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

## COMMITTEE ON EDUCATION AND LABOR
## HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

---

HEARING HELD IN WASHINGTON, D.C.,
NOVEMBER 10, 1983

---

Printed for the use of the Committee on Education and Labor

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

NE 017 489

U.S. GOVERNMENT PRINTING OFFICE

30-981 O WASHINGTON : 1984

## COMMITTEE ON EDUCATION AND LABOR

CARL D. PERKINS, Kentucky, *Chairman*

AUGUSTUS F. HAWKINS, California
WILLIAM D. FORD, Michigan
JOSEPH M. GAYDOS, Pennsylvania
WILLIAM (BILL) CLAY, Missouri
MARIO BIAGGI, New York
IKE ANDREWS, North Carolina
PAUL SIMON, Illinois
GEORGE MILLER, California
AUSTIN J. MURPHY, Pennsylvania
BALTASAR CORRADA, Puerto Rico
DALE E. KILDEE, Michigan
PAT WILLIAMS, Montana
RAY KOGOVSEK, Colorado
MATTHEW G. MARTINEZ, California
MAJOR R. OWENS, New York
FRANK HARRISON, Pennsylvania
FREDERICK C. BOUCHER, Virginia
GARY L. ACKERMAN, New York
SALA BURTON, California
DENNIS E. ECKART, Ohio
TIMOTHY J. PENNY, Minnesota

JOHN N. ERLENBORN, Illinois
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
E. THOMAS COLEMAN, Missouri
THOMAS E. PETRI, Wisconsin
MARGE ROUKEMA, New Jersey
STEVE GUNDERSON, Wisconsin
STEVE BARTLETT, Texas
RON PACKARD, California
HOWARD C. NIELSON, Utah
ROD CHANDLER, Washington
(Vacancy)

---

### SUBCOMMITTEE ON POSTSECONDARY EDUCATION

PAUL SIMON, Illinois, *Chairman*

WILLIAM D. FORD, Michigan
IKE ANDREWS, North Carolina
RAY KOGOVSEK, Colorado
FRANK HARRISON, Pennsylvania
MAJOR R. OWENS, New York
GARY L. ACKERMAN, New York
TIMOTHY J. PENNY, Minnesota
CARL D. PERKINS, Kentucky
(Ex Officio)

E. THOMAS COLEMAN, Missouri
STEVE GUNDERSON, Wisconsin
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
THOMAS E. PETRI, Wisconsin
RON PACKARD, California
(Ex Officio)

# CONTENTS


| | Page |
|---|---|
| Hearing held in Washington, D.C., on November 10, 1983 | 1 |
| Statement of— | |
| Dr. David Jones, Peabody College, Vanderbilt University, accompanied by Marilyn Liddicoat, attorney, member of the Insurance Premium Subcommittee and of the Subcommittee on Graduate Programs, National Commission on Student Financial Assistance; Kenneth Reeher, executive director of the Pennsylvania Higher Education Assistance Program; Scott Miller, senior research associate, and Richard T. Jerue, chief executive officer, both of the National Commission; Dr. Kenneth Ryder, president, Northeastern University; and Dr. David Irwin, Washington Friends of Higher Education, a panel | 2 |
| Prepared statements, letters, supplemental materials, et cetera: | |
| Irwin, David M., the Governance and Administration Subcommittee of the National Commission on Student Financial Assistance, prepared statement on behalf of | 16 |
| Ryder, Dr. Kenneth G., president, Northeastern University, prepared statement of | 32 |
| The National Commission on Student Financial Assistance, presented by David R. Jones, report of the | 2 |

# NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

THURSDAY, NOVEMBER 10, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
*Washington, D.C.*

The subcommittee met, pursuant to call, at 10:05 a.m., in room 311, Cannon House Office Building, Hon. Paul Simon (chairman of the subcommittee) presiding.

Members present: Representatives Simon, Perkins, Erlenborn, Gunderson, and Petri.

Staff present: William A. Blakey, staff director and majority counsel; Maryln McAdam, legislative assistant; John Dean, minority counsel; and Betsy Brand, minority counsel.

Mr. SIMON. The subcommittee will come to order. This morning the Subcommittee on Postsecondary Education continues its fact-finding hearings leading to reauthorization of the Higher Education Act of 1965, as amended.

During the last reauthorization in 1980 the National Commission on Student Financial Assistance was created. The Commission was directed in the Education Amendments of 1980 to conduct studies in several areas that have long troubled this subcommittee, the financial aid community, the college and university presidents and the students and parents who were eligible for Federal financial assistance.

Under the able stewardship of my colleague, Bill Ford, and Dr. David Jones, the Commission has completed a monumental and very important task. Their work will carry great weight in the upcoming reauthorization. The subcommittee is anxious to hear both about the research done for the Commission and its recommendations for modifications of the current law to facilitate greater access for low- and middle-income students and to improve the quality of postsecondary education, generally, in the Nation.

Our witnesses today are Dr. Jones of Peabody College at Vanderbilt University, Dr. Kenneth Ryder, president of Northeastern University in Boston, and David Irwin of the Washington Friends of Higher Education.

Dr. Jones is joined by some of his commissioners and I will ask him to introduce them before he presents his testimony.

Before we proceed, however, I want to note that Betsy Brand who has worked with the subcommittee for—how long?

Ms. BRAND. Three years.

Mr. SIMON. Three years. She has done an excellent job. She is joining the staff of Senator Dan Quayle and will be working on education for Dan Quayle. We wish you the best and we are grateful for all that you have done. Dan is fortunate to have your services.

We will proceed with our witnesses and call first on Dr. Jones.

**STATEMENT OF A PANEL OF WITNESSES CONSISTING OF: DR. DAVID JONES, PEABODY COLLEGE, VANDERBILT UNIVERSITY, ACCOMPANIED BY MARILYN LIDDICOAT, ATTORNEY, MEMBER OF THE INSURANCE PREMIUM SUBCOMMITTEE AND OF THE SUBCOMMITTEE ON GRADUATE PROGRAMS, NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE; KENNETH REEHER, EXECUTIVE DIRECTOR OF THE PENNSYLVANIA HIGHER EDUCATION ASSISTANCE PROGRAM; SCOTT MILLER, SENIOR RESEARCH ASSOCIATE, AND RICHARD T. JERUE, CHIEF EXECUTIVE OFFICER, BOTH OF THE NATIONAL COMMISSION; DR. KENNETH RYDER, PRESIDENT, NORTHEASTERN UNIVERSITY; AND DR. DAVID IRWIN, WASHINGTON FRIENDS OF HIGHER EDUCATION**

Dr. JONES. Good morning, Mr. Chairman. It's a pleasure to be here. With me this morning is Mrs. Marilyn Liddicoat, an Attorney from California, and Kenneth Reeher from Harrisburg, Pa.

I appreciate this opportunity to present to you a brief report on the Commission's work during the past 2 years. I have submitted to you and to members of your subcommittee an 11- or 12-page report and this morning I would like to take the opportunity to review sections of that report.

Mr. SIMON. Your full report will be entered in the record and we will await your summary here.

[Dr. Jones' report of the National Commission on Student Financial Assistance follows:]

REPORT OF THE NATIONAL COMMISSION ON STUDENT FINANICAL ASSISTANCE, PRESENTED BY DAVID R. JONES

The National Commission on Student Financial Assistance was established by Congress in 1980. (P.L. 96-374) Funds were eventually appropriated in the last quarter of fiscal year 1981, at which time the Commission's chairman, Congressman William Ford appointed a staff.

In November 1981, President Reagan appointed four Commissioners: Dr. Marilyn Liddicoat, an attorney from Watsonville, California, Richard E. Kavanagh, a Senior Vice President with Shearson/American Express, from Chicago, Illinois, and Kenneth R. Reeher, the Executive Director of the Pennsylvania Higher Education Assistance Agency from Harrisburg, Pennsylvania. I was the President's fourth appointee, and was appointed Chairman of the Commission.

The Speaker of the House appointed Congressman Wendell D. Bailey of Missouri, and William D. Ford of Michigan, Dr. John Brademas, President of New York University, and Kenneth G. Ryder, President of Northeastern University, which is located in Boston. Earlier this year Congressman John N. Erlenborn of Illinois replaced Wendell Bailey.

The four commissioners appointed by the President Pro Tem of the Senate are: Senators Clairborne Pell of Rhode Island and Robert T. Stafford of Vermont, David P. Gardner, who at the time of his appointment was the President of the University of Utah, and was recently named President of the University of California System, and David M. Irwin, the Executive Vice President of the Washington Friends of Higher Education. Mr. Irwin is from Seattle, Washington.

In carrying out our mandated activities, the Commission has met 10 times as a full Commission, and our subcommittees have held numerous meetings. We have

issued seven reports commissioned forty research papers, conducted eighteen public hearings, and heard from over two hunderd witnesses and approximately twenty-five associations concerned with postsecondary education policy. Commissioners and members of the Commission staff attended nearly fifty regional and national professional conferences to meet with financial aid officers, deans, business officers and others in the higher education community. Through these activities, we believe we have conducted one of the most extensive and thorough analyses of Federal student aid policy.

The Commissioners and commission staff are grateful for the splendid cooperation of the following people; William Blakey and John Dean of the staff of the House Subcommittee on Postsecondary Education; Polly Gault, David Morse, and David Evans of the staff of the Senate Subcommittee on Education, Arts, and Humanities; Dr. Edward Elmendorf of the Department of Education; David Bayer and the staff of the Guaranteed Student Loan office of the Department of Education; Jim Moore and Ralph Ommo and the Credit Management Task Force.

The specificity of the Congressional mandator to the Commission prompted us to divide the work among eight subcommittees. Further, the Commission decided to submit to Congress eight reports rather that a single report encompassing the recommendations of the subcommittees.

Our first four subcommittees focused on specific issues within the framework of the existing student aid system. These subcommittees examined: (1) the definition of satisfactory academic progress; (2) the In-School Interest subsidy provision of the Guaranteed Student Loan program; (3) the Insurance Premium provision of the Guaranteed Student Loan program; and (4) the Special Allowance provision of the Guaranteed Student Loan program. The Satisfactory Progress Subcommittee was chaired by Commissioner Pell, the In-School Interest Subcommittee was chaired by Commissioner Stafford, the Insurance Premium Subcommittee was chaired by Commissioner Bailey and Commissioner Ford chaired the Special Allowance Subcommittee. These subcommittee reports were reviewed by the Commission and unanimously adopted.

## SATISFACTORY ACADEMIC PROGRESS

This subcommittee examined the issue of satisfactory academic progress standards for recipients of Federal student assistance. A student has to meet these standards to continue being eligible for student aid. This issue has been a source of controversy within the academic community for a number of years, and intensified recently by a Senate bill to prescriptively define satisfactory academic progress, and a General Accounting Office study highly critical of the postsecondary education institutions enforcement of standards.

The subcommittee reviewed recent developments in the higher education community that had been initiated as a result of the controversy surrounding the subject. Among the more positive developments was a self-regulatory initiative undertaken by the American Council on Education and others that culminated in the issuance of a set of guidelines to be used by postsecondary institutions in designing their standards of academic progress. The subcommittee also conducted two public hearings on this issue, one in Anaheim, California in December of 1982, and another in Lexington, Kentucky in February of 1983. These hearings assisted the subcommittee in reaching its conclusions and recommendations. In addition, the subcommittee, in conjunction with the National Association of Student Financial Aid Administrators, conducted a survey of student aid officers which indicated that a majority of postsecondary institutions were actively reviewing their progress standards for aid recipients in light of the self-regulatory initiative and the current public debate.

As a result of these hearings and this research, the subcommittee found two major areas of concern with respect to these standards. First, there is not any systematic effort to assess the standards currently being employed by postsecondary institutions. And second, the enforcement of these standards was not being sufficiently monitored. The subcommittee therefore made the following recommendations, which were unanimously adopted by the full Commission.

Adopt the U.S. Department of Education's notice of proposed rulemaking on satisfactory academic progress (May 4, 1982), which incorporates the postsecondary education community's self-regulatory initiative and sets forth specific elements to be included in institutional satisfactory progress standards for student aid recipients.

Require all title IV eligible institutions to submit a copy of their satisfactory academic progress standards to the U.S. Department of Education as part of a one-time effort to assemble these standards.

Instruct the U.S. Department of Education, in cooperation with Congress and the higher education community, to evaluate these progress standards to determine their compatibility with the Department's proposed rule. This report will be delivered to Congress within six months after the standards are collected.

Require the U.S. Department of Education to collect and review the standards of academic progress developed by institutions that apply for title IV eligibility to ensure that these standards meet the specifications of the Department's proposed regulations.

Require postsecondary education institutions to submit to the U.S. Department of Education any revisions in their satisfactory academic progress policies for aid recipients, and require the Department to review any such changes to ensure that they are consistent with the standards included in the notice of proposed rulemaking (May 4, 1982).

Instruct the U.S. Department of Education to require that the maintenance and enforcement of progress standards be examined more carefully than at present during annual and program review audits of postsecondary institutions.

Require postsecondary institutions to include a statement or summary of their academic progress requirements with the aid-award letters they send to student aid recipients.

Urge the U.S. Department of Education to continue its cooperative efforts with the higher education community and postsecondary institutions on satisfactory academic progress and to include nationally recognized accrediting associations and agencies in this effort.

This subcommittee's full report is Report Number 5 of the Commission's work.

### IN-SCHOOL INTEREST STUDY

This subcommittee was created to examine the provision of the Guaranteed Student Loan program by which the federal government pays the interest on Guaranteed Student Loans while the borrower is in school.

In fiscal year 1982, costs for this in-school interest subsidy totaled approximately one billion dollars or 35 percent of the cost of the entire GSL program.

In recent years, a number of proposals had been advanced to eliminate the in-school interest subsidy. These proposals fell into basic categories:

Borrower paying of interest while in-school; accrual and deferral of in-school interests, with borrower paying both principal and interest after leaving school; immediate payment of in-school interest through additional borrowing and; recapture, during the repayment period, of the federal in-school interest payment from the borrower.

This subcommittee reviewed these proposals in terms of the effect each would have on the administrative and operational aspects of the GSL program, the availability of loan capital, and the impact that each proposal would have on borrowers' abilities to meet their repayment obligations. In undertaking this review, the subcommittee relied on (1) data collected for the Commission from GSL lenders by the Wharton Applied Research Center at the Wharton School of the University of Pennsylvania; (2) on information from a paper by the Educational Policy Research Institute entitled "Discretionary Income and College Costs," which was prepared for the Commission; (3) on a Commission requested study, "Study of Guaranteed Student Loan Default Rates," by Applied Systems Institute; and (4) from information gained at a public hearing held in Washington, D.C. in December 1982.

After assessing these studies and the information presented at the hearing, this subcommittee concluded that the elimination of the in-school interest subsidy would result in a serious erosion of the capital supply for Guaranteed Student Loans. Lenders faced with increased administrative workloads and reduced profitability would probably withdraw from the GSL program. Complications that would arise in secondary market transactions involving nonsubsidized loans would also result in reduced lender participation in the program. The interruption of cash-flow to lenders that would result from accrual and deferral plans would serve as a disincentive to GSL lending.

The experiences of various states with nonsubsidized loan programs, including the student portion of the PLUS program, indicated that students would have great difficulty in meeting interest payment obligations during in-school years. Proposals that result in adding the amount of the in-school interest to students' repayment schedules would result in dramatic increases in total indebtedness. These increases in total debt could be expected to lead to higher rates of loan default and consequently, higher federal costs for reinsuring these loans.

The Subcommittee therefore concluded and the full Commission unanimously concurred that the in-school interest subsidy is a vital component of the Guaranteed Student Loan program. Elimination of the subsidy would weaken the program's ability to provide students with access to low-cost capital to finance their postsecondary education. THEREFORE, THE COMMISSION UNANIMOUSLY ADOPTED THE RECOMMENDATON TO SUPPORT THE RETENTION OF THE GUARANTEED STUDENT LOAN IN-SCHOOL INTEREST SUBSIDY IN ITS CURRENT FORM.

This subcommittee's report is Report Number 2 of the Commission's work.

### INSURANCE PREMIUMS

This subcommittee was established to examine the insurance premium charged borrowers under the Guaranteed Student Loan program. Essentially, this subcommittee was asked to determine whether the rate charged exceeded the rate necessary to protect the reserves of the insurer, and to determine if statutory limits should be imposed on the premium rate.

In conducting this study the Commission contracted the services of Touche-Ross & Company for technical assistance in this matter. The Commission also received a great deal of cooperation and assistance from the staff of the Guaranteed Student Loan branch of the Department of Education.

As part of the subcommittee's examination of the insurance premium, hearings were held across the country. The first two hearings were held on September 24, 1982 in Jefferson City and Warrenburg, Missouri. A third hearing was held on October 29, 1982 in San Francisco, California, and the final subcommittee hearing was held on December 7, 1982 in Boston, Massachusetts.

From its first meeting, the subcommittee focused on the central issue of this study: Is the insurance premium rate, in fact, a problem?

The subcommittee, in answering this question, recognized that legislative changes had occurred in the Guaranteed Student Loan program since its inception, yet the appropriateness of the insurance premium had been virtually ignored in the legislative and regulatory processes.

### BACKGROUND

Under the Guaranteed Student Loan program, an insurance premium fee is usually charged to borrowers by guaranty agencies in case the students default. However, since guaranty agencies are reinsured by the Federal Government for most loan losses, insurance premium income is used primarily for agencies operating expenses, to ease their cash flow, and to increase their reserves against potential future losses.

The rate charged for the insurance premium generally ranges from .5 to 1 percent per annum. The period upon which the premium is charged ranges from the in-school plus grace period to the life of the loan. For example, a freshman may be charged 1 percent x 4 years + 1 year grace period for a total insurance premium of 5 percent of the amount borrowed. In fiscal year 1981, insurance premiums represented $99.5 million or 22 percent of guaranty agencies' total sources of funds.

In order to comply with its congressional mandate, the subcommittee made a thorough historical study of the Guaranteed Student Loan program to see if changes in the program have affected insurance premiums. An examination of each guaranty agency's sources and uses of funds was also made in an attempt to measure the need of insurance premiums. And, finally, an examination was made to determine the amount of insurance premiums needed by guaranty agencies for their reserves in order to pay default claims.

### FINDINGS

The Insurance Premium Subcommittee, based on its research, concluded, in general, that:

The term "insurance premium" is misleading, since the large percentage of insurance premium funds are not used to pay default claims.

With the passage of the 1976 Higher Education Amendments, the need to charge the maximum insurance premium rate to protect against defaults decreased significantly.

Despite the current reinsurance mechanism, which in effect provides 100 percent reinsurance, guaranty agencies are still governed by lenders' and bondholders' perceptions to hold reserves in order to guarantee against the unlikely event of uncompensated defaults.



30-981 O - 84 - 2

RECOMMENDATIONS

The subcommittee made, and the full Commission adopted, the following recommendations on procedures and policies governing the financing of guaranty agencies:

Change name of "insurance premium" to "service fee."

Change current reinsurance formula to 100 percent reinsurance and require the Federal Government to pay all claims without exception within 60 days, subject to subsequent postaudit verification.

The administrative cost allowance will continue to reflect a percentage of loans guaranteed, as under current law or at each agency's option, at 0.25 of 1 percent of loans outstanding.

To assure that guaranty agencies maintain their current levels of effectiveness in avoiding borrower defaults under the proposed condition of 100 percent reinsurance, the Secretary of Education, in cooperation with the National Council of Higher Education loan programs, should develop minimum standards for due diligence.

Establish an adequate working capital fund for the payment of agency defaults and administrative expenses.

Change the current fee of 1 percent of the loan value for each year that loan is extended to a maximum of one-half of one percent of the loan value for the borrowers in-school and grace periods per loan when an agency's reserves exceed the working capital fund.

A guaranty agency must return Federal Reserve and advance monies to the Federal Government when the agency has a sufficient amount of reserves, as determined by the working capital fund.

A new agency will not be subject to any of the above changes during its first five years of operation, unless it so chooses.

It should be noted that the subcommittee indicated that there might be other methods, as well as these recommendations, to accomplish its objective.

This subcommittee's report is Report Number 3 of the Commission's work.

SPECIAL ALLOWANCE

This subcommittee was charged with examining the Special Allowance provision of the Guaranted Student Loan program. Special allowances are incentive payments to lenders to encourage their participation in the loan program.

In examining this issue, the subcommittee contracted for two major studies of special allowances, one conducted by the Wharton Applied Research Center of the Wharton School of the University of Pennsylvania, and the other by Applied Systems Institute of Washington, D.C. In addition, the subcommittee conducted a public hearing in Washington, D.C. January 5, 1983.

Thus, the subcommittee researched the merits and consequences of changing the method for determining the rate of the special allowance. It studied, in particular, the factors specifically set out in its mandate, which were:

The experience of students and eligible lenders; the administrative costs of various types of eligible lenders; financial indicators which accurately reflect the costs of capital; and administrative mechanisms for rapidly disseminating to lenders the quarterly rate of the special allowance.

FINDINGS

The subcommittee made three findings. First, the special allowance formula is only one of several interrelated loan program provisions that have successfully contributed to lender participation and the supply of loan capital. Changes in any of these incentives would be viewed by lenders as increasing their risks and quite possibly decreasing their participation in the program. Second, there was strong evidence that any reduction in the special allowance would result in disruptions in the supply of education loan capital and reductions in lender participation in the loan program. And third, there was no conclusive evidence that lender profits from the current special allowance formula were excessive or above amounts needed to maintain their participation in the program.

The subcommittee suggested that the adequacy of the special allowance be continually reviewed by the Congress and the Department of Education. The volatility of the financial markets and the uncertainties created by the variety of new financial instruments may require future adjustments in the special allowance if an adequate supply of student loan capital is to be maintained.

RECOMMENDATION

Therefore, the subcommittee concluded, and the full commission concurred, that the special allowance formula should be retained in its current form at this time.

This subcommittee's report is Report Number 4 of the Commission's work.

ADDITIONAL REPORTS

As part of our initial year's work, we also prepared a background paper on the Guaranteed Student Loan program, which is Report Number 1 of the Commission's work. This report was aimed at making this very complex program more understandable to policymakers.

As the work of these subcommittees was progressing, we created four new subcommittees to complete the remaining studies that had been mandated by Congress. These new subcommittees were Sources of Funds, Appropriate Balance, Governance and Administration, and Graduate Education.

SOURCES OF FUNDS

This subcommittee was created to examine those mandated issues pertaining to sources of student assistance funds. It addressed the impact student aid has had on access and choice, and throughly examined the current sources of student financial assistance. Its findings offer important insights into student assistance and point to some interesting developing patterns.

In undertaking its work, the subcommittee commissioned nine papers. It also conducted four public hearings. The subcommittee's report, "Access and Choice; Equitable Financing of Postsecondary Education," is report number 7 of the Commission's work. Commissioner Ryder will discuss this report in detail.

APPROPRIATE BALANCE

This subcommittee was charged with examining issues pertaining to who gets student assistance, from what source and how much student aid these students receive. It examined trends in student aid financing over the past few years, and looked at the impact of these trends.

In undertaking its work, this subcommittee commissioned 13 papers. It also conducted one public hearing. This subcommittee, which is chaired by Dr. David Gardner, will be submitting its findings to the Congress in the near future.

GOVERNANCE AND ADMINISTRATION

This subcommittee focused on the need for more efficient and effective systems to deliver financial assistance to students and to administer the Guaranteed Student Loan program. The research conducted by the subcommittee and the hearings it held on these topics revealed a widely held concern that the current delivery system is confusing, unpredictable, and unstable. The desire of all participants in the student aid delivery process to remedy these inadequacies was apparent throughout this subcommittee's investigations.

The subcommittee developed recommendations that address a variety of issues within the delivery process. Included in these recommendations were suggestions for improving the delivery of Pell Grant and campus-based assistance, enhancing the provision of information to current and prospective postsecondary students, monitoring the delivery process, more efficiently administering the Guaranteed Student Loan program, and gathering more detailed data on the federal aid programs and the students they serve.

In undertaking its work, the subcommittee commissioned four papers. It also conducted three public hearings. The subcommittee's report, "Assuring the Effective Delivery of Student Financial Assistance," is report number 6 of the Commission's work. Commissioner Irwin will discuss this report in detail.

GRADUATE EDUCATION

This subcommittee was established to examine the Commission's mandate in the area of financing graduate education in this nation. This subcommittee's charge dealt primarily with issues of financing graduate education, issues such as:

Sources and levels of support; the extent to which talented individuals are dissuaded from graduate study by cost considerations; the growing levels of indebtedness of graduates; and the under-representation of disadvantaged groups in various fields of graduate study.

This subcommittee also addressed the need for modifications in existing Federal student assistance programs, and the need for new programs of graduate student support. As you know, Dr. Brademas' subcommittee is completing this report and will appear before you at a later date.

INFORMATION AND DATA

Through our deliberations, we were struck by the lack of useful information about student aid and student policy. Although many of our studies have resulted in the availability of more student aid information, much more must be done. In this regard, we would recommend the following:

One, the Department of Education should undertake a long-term, comprehensive effort to collect and analyze data on all student aid programs, their recipients, those involved in their delivery, and the interactions between the programs. These efforts should be a priority within the Department and should be assured annual funding.

Two, the appropriate departments and agencies of the Federal government should work with state governments, colleges, and universities, and other relevant organizations to collect data that are needed to describe and monitor the overall condition of postsecondary education.

CONCLUSION

The unanimity of the Commission's findings and recommendations should not detract from the merits of other alternatives and options to strengthen student financial assistance. However, the Commission found no compelling reason to radically change the current system. Thus, the Commission's recommendations are in most instances aimed at qualitatively improving the current federal program of student financial aid.

The Commission wishes to report to you—that based on our studies and hearings the federal commitment to aid postsecondary students has had a favorable impact. In 1962, 4,206,672 students were attending postsecondary institutions. In 1980, 12,087,200 were attending postsecondary schools. The number of students from less than affluent families increases each year. The number of students attending postsecondary schools from families with incomes of $7,500 or less has more than doubled in the last six years. These encouraging trends would not have occurred without the support of federal programs which eliminate economic barriers.

Ever since 1862 when President Lincoln signed the Morrill Act, this nation has pursued a course in higher education which recognized that it was in the national interest to encourage postsecondary education for all citizens.

Following World War II, when over seven million Americans were able to attend a postsecondary school through the G.I. bill, the responsibility for increasing the participation in higher education has been shared by parents, students, the state governments, the federal government, and the private sector.

As Congress continues to stengthen the federal share of this responsibility, it must take care not to replace or hinder the other partners in this unique educational enterprise.

The Commission is hopeful that the 98th Congress will establish a federal program of work-study, grants, and loans which is stable, reliable, and easily understood. A program so stable and reliable that students entering secondary school will be motivated, rather than discouraged by financial barriers, to strive for excellence in the classroom.

The Commission is confident that the 98th Congress will keep intact the national goals—of assuring every qualified young American access to a postsecondary education, and a reasonable choice in the selection of a school.

Dr. JONES. Thank you, Mr. Chairman.

The National Commission on Student Financial Assistance was established by Congress in 1980. Funds were eventually appropriated in the last quarter of fiscal year 1981, at which time the Commission's Chairman, Bill Ford, appointed a staff. In November, 1981, approximately 1 year after the Commission had been enacted by law, President Reagan appointed four commissioners—Mrs. Marilyn Liddicoat, an attorney from Watsonville, Calif.; Richard Kavanaugh, a senior vice president with Shearson/American Express from Chicago; Kenneth Reeher, executive director of the Pennsylvania Higher Education Assistance Agency, from Harris-

burg, Pa. I was the President's fourth appointee, at the time, vice chancellor for development at Vanderbilt University and currently serving on the faculty there.

The Speaker of the House appointed Congressman Bailey of Missouri; Bill Ford of Michigan; Dr. John Brademas, president of New York University; and Dr. Kenneth Ryder, president of Northeastern University.

Earlier this year Congressman John Erlenborn of Illinois replaced Wendell Bailey. The four Commissioners appointed by the President Pro Tem of the Senate are Senators Pell and Stafford; Dr. David Gardner, who at the time of his appointment was president of the University of Utah and was recently named president of the University of California system; and Mr. David Irwin, the executive vice president of the Washington Friends of Higher Education.

In carrying out our mandated activities, the Commission has met 10 times as a full Commission and our subcommittees have held numerous meetings. We have issued 7 reports, commissioned 40 research papers, conducted 18 public hearings and heard from over 200 witnesses and approximately 25 associations concerned with postsecondary education policies. Commissioners and members of the Commission staff attended nearly 50 regional and national conferences to meet with financial aid officers, deans, business officers and others in the higher education community.

Through these activities we believe we have conducted one of the most extensive and thorough analyses of Federal student aid policy. The Commissioners and Commission staff are grateful for the splendid cooperation of William Blakey and John Dean of the staff of the House Subcommittee on Postsecondary Education and Polly Gault, David Morse and David Evans of the staff of the Senate Subcommittee on Education, Arts and Humanities, Dr. Edward Elmendorf of the Department of Education, David Bayer on the staff of the Guaranteed Student Loan Office of the Department of Education and Jim Moore and Ralph Ommo and the Credit Management Task Force.

The specificity of the congressional mandate for the Commission prompted us to divide the work among eight subcommittees. Further, the Commission decided to submit to Congress eight reports rather than a single report encompassing the recommendations of these subcommittees.

Our first four subcommittees focused on specific issues within the existing framework of the existing student aid system. These subcommittees examined first the definition of satisfactory academic progress; second, the in-school interest subsidy provision of the guaranteed student loan program; third, the insurance premium provision of the guaranteed student loan program and; fourth, the special allowance provision of the guaranteed student loan program.

The Satisfactory Progress Subcommittee was chaired by Commissioner Pell. The In-school Interest Subcommittee was chaired by Commissioner Stafford. The Insurance Premium Subcommittee was chaired by Commissioner Bailey and Commissioner Ford chaired the Special Allowance Subcommittee.

These subcommittee reports which have been submitted to you and your staff were reviewed by the Commission and were unanimously adopted

The Satisfactory Academic Progress Committee examined the issue of standards for recipients of Federal student assistance. The subcommittee reviewed recent developments in the higher education community that had been initiated as a result of the controversy surrounding the subject. As a result of these hearings and this research found two major areas of concern with respect to these standards.

First, there was not any systematic effort to assess the standards currently being employed by postsecondary institutions. Second, the enforcement of these standards was not being sufficiently monitored. The subcommittee, therefore, made the following recommendations which were unanimously adopted by the full Commission. First, adopt the U.S. Department of Education's Notice of Proposed Rulemaking on Satisfactory Academic Progress, which incorporates the postsecondary education community's self-regulatory initiative and sets forth to be included in institutional satisfactory progress standards for student aid recipients.

Second, require all title IV-eligible institutions to submit a copy of their satisfactory academic progress standards to the U.S. Department of Education as part of a one-time effort to assemble these standards.

Third, instruct the U.S. Department of Education in cooperation with Congress and the higher education community, to evaluate these progress standards to determine their compatibility with the Department's proposed rule. This subcommittee's report was unanimously adopted.

The In-school Interest Subcommittee was created to examine the provision of the guaranteed student loan program by which the Federal Government pays the interest on guaranteed student loans while the borrower is in school. In fiscal year 1982 costs for this in-school interest subsidy totaled approximately $1 billion, or 35 percent of the cost of the entire GSL Program.

In recent years a number of proposals have been advanced to eliminate the in-school interest subsidy. This subcommittee reviewed these proposals in terms of the effect each would have on the administrative and operational aspects of the GSL program, the availability of loan capital and the impact that this proposal would have on the borrowers ability to meet their repayment collection.

The subcommittee concluded and the full Commission unanimously concurred that in-school interest subsidy is a vital component of the guaranteed student loan program. The elimination of the subsidy would weaken the program's ability to provide students with access to low-cost capital to finance their postsecondary education.

Therefore, the Commission unaminously adopted the recommendation to support the retention of the guaranteed student loan In-school interest subsidy in its current form.

The Insurance Premium Subcommittee was established to examine the insurance premium charged borrowers under the guaranteed student loan program. Essentially, this subcommittee was

asked to determine whether the rate charge exceeded the rate necessary to protect the reserves of the insurer and to determine if statutory limits should be imposed on the premium rate.

In conducting this study, the Commission contracted the services of Touche-Ross and Co. for technical assistance in this matter. The Commission also received a great deal of cooperation and assistance from the staff of the guaranteed student loan branch of the Department of Education. As part of the subcommittee's examination of the insurance premium, hearings were held across the country, including Jefferson City and Warrenburg, Mo., San Francisco, Calif., and Boston Mass.

In order to comply with its congressional mandate the subcommittee made a thorough, historical study of the guaranteed student loan program to see if changes in the program have affected insurance premiums. An examination of each guaranty agency's sources and use of funds was also made in an attempt to measure the need of insurance premiums. Finally, an examination was made to determine the amount of insurance premiums needed by guaranty agencies for their reserves in order to pay the cost of the claims.

Based upon the findings and the recommendations of the subcommittee, the full Commission adopted the following recommendations on procedures and policies governing the financing of guaranty agencies.

First, change the name of insurance premiums to service fees. Second, change the current reinsurance formula to a 100-percent reinsurance and require the Federal Government to pay all claims without exception within 60 days, subject to subsequent post-audit verifications. Further, to establish an adequate working capital fund for the payment of agency defaults and administrative expenses and a guaranty agency must return Federal Reserve and advance moneys to the Federal Government when the agency has a sufficient amount of reserves, as determined by the working capital fund.

The Special Allowance Subcommittee was charged with examining the special allowance provision of the guaranteed student loan program. Special allowances are incentive payments to lenders to encourage their participation in the loan program.

In examining this issue, the subcommittee contracted for two major studies of special allowances, one conducted by the Wharton Applied Research Center of the Wharton School of the University of Pennsylvania and the other by Applied Systems Institute of Washington, D.C. In addition, the subcommittee conducted a public hearing in Washington, D.C., January 5, 1983.

The subcommittee, upon its recommendations to the full commission concurred that the special allowance formula should be retained in its current form at this time.

As the work of first four subcommittees was in progress, the Commission created four new subcommittees to complete the remaining studies that had been mandated by Congress. These new subcommittees were sources of funds, appropriate balance, governance and administration, and graduate education.

The Sources of Funds Subcommittee Report will be given this morning by Commissioner Ryder, the Chair of the subcommittee. The Appropriate Balance Subcommittee will be given at a later

date by Dr. David Gardner, Chair of the Subcommittee. Commissioner David Irwin, Chair of the Subcommittee on Governance and Administration is with us this morning and he is here to submit his report. The Graduate Education Subcommittee report will be given at a later date by Dr. Brademas. Dr. Brademas chaired this subcommittee.

Finally, Mr. Chairman, I wish to note that through our deliberations the commissioners and staff and many of those who helped us with the research were struck by the lack of useful information about student aid and student policy. Although many of our studies have resulted in the availability of more student aid information, much more must be done. In this regard we have two recommendations.

One, the Department of Education should undertake a long-term comprehensive effort to collect and analyze data on all student aid programs—their recipients, those involved in their delivery and the interaction between these programs. These efforts should be a priority within the Department and should be assured annual funding.

Two, the appropriate departments and agencies of the Federal Government should work with State governments, colleges and universities and other relevant organizations to collect data that are needed to describe and monitor the overall conditions of postsecondary education.

In conclusion, the unanimity of the Commission's findings and recommendations should not detract from the merits of other alternatives and options to strengthen student financial assistance. However, the Commission found no compelling reason to radically change the current system. Thus, the Commission recommendations are, in most instances, aimed at qualitatively improving the current Federal program for student financial aid.

The Commission wishes to report to you that based on our study and hearings, the Federal commitment to aid postsecondary students has had a favorable impact. In 1962, there were 4,200,000 attending postsecondary institutions. By 1980 that had increased to 12,087,000. The number of students in less-than-affluent families increases each year. The number of students attending postsecondary schools from families whose incomes are $7,500 or less has more than doubled in the last 6 years. These encouraging trends would not have occurred without the support of Federal programs which eliminate economic barriers.

Ever since 1862 when President Lincoln signed the Morrill Act, this Nation has pursued a course in higher education which recognizes that it was in the national interest to encourage postsecondary education for all students.

Following World War II when over 7 million Americans were able to attend a postsecondary school through the GI bill, the responsibility for increasing the participation in higher education has been shared—shared by parents, students, the State governments, the Federal Government and the private sector.

As Congress continues to strengthen the Federal share of this responsibility, it must take care not to replace or hinder the other partners in this unique educational enterprise.

The Commission is hopeful that the 98th Congress will establish a Federal program of work study, grants and loans which is stable, reliable and easily understood. A program so stable and reliable that students entering secondary schools will be motivated rather than discouraged by financial barriers to strive for excellence in the classroom.

The Commission is confident that the 98th Congress will keep intact the national goals of assuring every qualified young American access to a postsecondary education and a reasonable choice in the selection of his or her school.

Mr. Chairman, I would now like, with your permission, to call on Dr. Ryder for his subcommittee's report.

Mr. SIMON. We will be pleased to hear from Dr. Ryder who is no stranger to this subcommittee. We are pleased to have you here.

Dr. RYDER. Thank you, Mr. Chairman. I am honored to be able to present to you a very brief report from the Sources of Funds Subcommittee.

I think all members of the Commission share very much a common aspiration that the dream of Congress and of the American people could be brought into reality—that dream that there should be equal access to higher education for all individuals with ability, without regard to finances. In some respects, over the years since the passage of the Higher Education Act of 1965, we have moved toward that goal. There has been a myriad group of financial assistance programs of increasing sophistication developed to answer the various needs of young people from a wide variety of economic circumstances. The Commission has found that all of these programs generally serve their target populations well and are efficient mechanisms for encouraging wider participation in higher education, as Chairman Jones has already indicated.

On the other hand, the Commission, and particularly the Subcommittee on Sources of Funds in which I was involved, has found that a quiet and quite unintended shift of attention and funding has occurred toward programs for students from middle- and upper-middle-income families and this has led to proportionately less Federal support for the Pell Grant programs designed to aid the poorest Americans.

In my opinion, this shift, however subtle, is unacceptable. In reauthorizing the Higher Education Act, this committee and the Congress as a whole should adopt as their highest priority the reinstitution of a truly adequately funded basic grant program as the foundation of student financial assistance so that people of scant economic means can get a college education. Otherwise, I am afraid we will drift into becoming a country where only the wealthy can be healthy and wise.

Our data shows that the low-income and minority students have been proportionately affected by reductions in student financial assistance. This has occurred because funding for all of the Pell grants has been disproportionately lower than the funding for the guaranteed student loan program.

The guaranteed student loan program with its entitlement status has consumed an increasing share of Federal funds for higher education, inevitably producing a budgetary tradeoff with the major

student loan programs that are more heavily targeted for needy students.

The Commission also found the response to the reduction in and eventual elimination of social security benefits grossly inadequate. According to a study conducted for the Commission by David P. Rosen, and I quote, "on balance the old age survivors disability insurance student beneficiaries are poorer and more likely to come from working class families." When this social security benefit program is finally terminated in 1985, over $2 billion of the $8.6 billion available for student aid in fiscal year 1982 will be eliminated entirely—a 23-percent decrease in total Federal funding.

The GAO has estimated that merely to offset the loss of social security benefits, Pell grant benefits alone would have to be increased by about $1 billion by 1985.

The subcommittee was concerned with the demographic changes in the decade ahead and it's clear that these changes will exacerbate the imbalance that already exists. There will be a relative increase in the number of 18- to 24-year-old from low-income families in our population. The growing number of low-income students will continue to experience increasing inequality in obtaining funding if Federal policy is not changed.

The Commission had two studies conducted by the Applied Systems Institute which compared college students as a group in 1974 with those in 1981. I think some rather fascinating facts emerged from those studies.

In the period of some 7 years, more than twice as many students from families with incomes above $20,000 emerged by the end of that period. More than twice as many of the upper- or middle-income families were receiving Federal assistance since the beginning of the period.

In that same period, inflation combined with recession led to greater inequality in the distribution of family income so that by the end of the period the number of families below the poverty line had increased by over $2 million.

During the period the percentage of eligible 18- to 24-year-old in the population attending college did, in fact, increase from about 26.4 percent to about 28 percent in 1981. In absolute numbers, from about 4.9 million to 5.7 million students in this age group. But the participation was uneven. The white women category went up significantly. Males, generally, were about stabilized. Minorities showed a very modest increase while the white portion had a much larger rate of increase.

The aggregate amount of student aid appears to have increased significantly during the period and the amount of the average award has not increased as fast as the tuition that had to be paid by each student. So rising tuitions have tended to negate almost all of the value of increased student aid awarded.

During the 7-year period the biggest growth in the percentage of students aided was actually in the higher income levels, and in fact, during this period, lower income students were more likely to receive a smaller award from all Federal sources in 1981 than they would have been in 1974.

So these findings, along with the testimony that the Commission has heard around the country, suggest that the Federal financial

assistance program does, in fact, affect access and choice. While great progress has been made, there are dangerous signs already in place that suggest the need for modification of programs for the future.

The Commission made a very thorough analysis of the guaranteed student loan program which has become such an important part of Federal aid. This particular analysis conducted by the accounting firm of Touche-Ross found that the average student borrower under the GSL program usually pays in real terms, adjusted for inflation, an effective interest rate of close to zero. This occurs because in an inflationary economy time lessens the value of the dollar because all payment of principal is delayed until after the student leaves school and because when repayment begins, the interest rate paid by the borrower is below market rate.

The GSL program, we were convinced, while it imposes a substantial cost on the Federal Government, is nonetheless an extraordinarily good program. Approximately $2 of capital is generated for every $1 of Federal cost and this makes the GSL program a successful mechanism for leveraging additional money from the private sector and delivering credit for students so that they can attend college, without at the same time imposing unreasonable future financial hardships on those students.

The Commission subcommittee has drawn several broad recommendations which we hope will be useful to Congress as they enter the reauthorization process. Among the key recommendations would be these:

A large Federal grant program serving low-income students, such as the Pell grant program, should be continued and expanded. Funding for the program should more accurately reflect the current cost of the attendance faced by students.

Second, the campus-based grant and work-study program should be continued and expanded consistent with the funding levels for the other student aid programs.

Third, more emphasis should be put on work programs like college work-study and cooperative education as sources of student financial assistance. Similarly, more emphasis should be put on the private sector, which can play an important role in providing for cooperative education students and employment-based tuition aid.

I might say in passing that one of the fascinating bits of information that the Commission received in testimony was that something like $6 billion of tuition aid benefits are available through the corporate sector for employees, and of that amount only some $200 million or $300 million is actually being used at the present time. So there is the immense potential for further corporate support already in place and with the proper counseling and implementation that could be developed.

Another recommendation is that the funding for the TRIO programs should be increased so that services can be made available to an increased proportion of eligible students. Only about 3 percent of the target population receive the benefits of this program and we had clear testimony from guidance officers and people in the education system across the country suggesting that one of the great burdens is the lack of information and communication.

Young people that have ability simply do not know that they have the chance to attend college.

Finally, we would suggest that Federal public assistance programs, such as AFDC, Food Stamps, medicaid, public housing, all of these should be reviewed by Congress with an eye for eliminating any existing disincentives for unemployed and poor persons so that they might, in fact, be encouraged to receive training and education to assist them in reentering the work force.

In the coming reauthorization process, Congress has the opportunity and the responsibility to set the goals for higher education over the difficult period of years that lie in the decade ahead. I know that this subcommittee will not, as it has not in the past, turn away from the commitment to equal educational opportunity for all.

With the arrival of the knowledge-based information age, now more than ever higher education represents an investment not only in the future of individuals, but in the economic and technological future of our Nation. The price tag will not be small, but in terms of the cost to the country of the really big ticket items that Congress considers in the Federal budget, higher education comes relatively cheap and represents a real bargain. A small investment today will reap large dividends tomorrow.

Thank you.

Mr. SIMON. We thank you.

I might add that both your findings and your recommendations are in line with the thinking of this subcommittee.

Dr. JONES. Mr. Chairman, with your permission, I would like Commissioner Irwin to give the final report and then the Commissioners and staff will be better, perhaps, able to answer your subcommittee's questions.

Commissioner Irwin.

Mr. SIMON. Please proceed.

[Prepared statement of David Irwin follows:]

PREPARED STATEMENT OF DAVID M. IRWIN, ON BEHALF OF THE GOVERNANCE AND ADMINISTRATION SUBCOMMITTEE OF THE NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

Mr. Chairman, members of the Committees, I appear before you today as a member of the National Commission on Student Financial Assistance and as chairman of its Subcommittee on Governance and Administration. You have in your possession, a copy of the subcommittee's final report, "Assuring the Effective Delivery of Student Financial Assistance," and a flow chart depicting the student financial aid delivery system.

INTRODUCTION: THE AID DELIVERY SYSTEM

A quick glance at this flow chart, which was prepared by the National Student Aid Coalition, will give you an idea of the complexity of the aid delivery system and the confusion that it causes among students, parents, and those who administer student aid programs. As you will note, the aid delivery process for a single academic year lasts some 18 to 20 months. Each step in the process is dependent on the successful completion of the prior step. A problem in one area of the delivery system will ripple through the entire process and ultimately delay the award of aid to students.

The full breadth of the aid delivery system cannot be properly appreciated without fully examining all of the items included in the process and all of the persons and organizations that must work in concert in order to bring this system together. In presenting this flow chart to a National Commission hearing, Francis Keppel added his own assessment of the delivery system:

Once you get all the way down at the other end of this [process], the Lord being with us, some guy gets a check. And the astonishing thing is, the guy does get a check. I frankly think its a testimony to the ingenuity of man.

Mr. Chairman, I think you will agree that it is primarily due to the hard work and talent of the many individuals who work to deliver student assistance, that students do get their checks and, thus, are provided the opportunity to pursue a post-secondary education.

The National Commission divided its inquiry into the delivery system into two distinct, yet related areas:

The delivery of Pell and campus based student assistance; and the management of the Guaranteed Student Loan Program.

While these two processes merge at various points in the system, they are separate enough in terms of participants and specific practices to warrant individual consideration.

## RESEARCH FINDINGS

At this time I will briefly summarize the findings of the Commission's research in these areas.

The Commission sponsored a major study of the cost of delivery student aid on campus. This effort concluded that campuses are investing a significant amount of money in the administration of the various student aid programs. To no one's surprise, the NDSL program was found to be the most expensive program to manage on campus. Aid offices were found to devote most of their resources to staff salaries and benefits. Counseling and outreach activities demanded the most in terms of time and staff effort with application processing a close second.

One of the more significant observations of this study was the impact of an automated aid office. A school located in the State of Pennsylvania that can avail itself of the computer resources provided by the state can save thousands of dollars per year in administrative costs. The aid office that has computerized capacities at its disposal can operate more efficiently and can provide students, parents, and college officials with accurate, timely information. Automation is clearly the wave of the future in delivering student assistance.

The Commission also found that the system for processing Pell Grants could be made more efficient and responsive to the needs of students. Several members of the Commission had the opportunity to tour the Pell Grant processing facility in Santa Monica, California, and were surprised to find that it is a primarily manual, labor-intensive operation that has trouble keeping pace with the large numbers of applications and corrections that it must process.

Greater levels of efficiency could certainly be achieved in the processing of corrections to applications. Some 30 to 40 percent of over five milion annual Pell applications need to be resubmitted for corrections. This process is slow, and is especially confusing and burdensome to students.

The Commission also found that information on the student aid programs is still not being disseminated in comprehensive manner. The need for better, timely, and accurate information at the secondary level is imperative.

High school counselors testifying before the Commission stressed the need to provide information on student aid to students and parents in the early years of high school and even at the junior high level. Federal efforts in this regard have been insufficient in recent years, adding to confusion and misunderstanding regarding the amount and type of aid available.

As part of its research, the National Commission worked with the Department of Education and state guaranty agencies to create a data base containing the records of over two million GSL borrowers. With the aid of this data tape, we have been able to examine some of the characteristics of those who default on their student loans. We have found, for example, that students are more likely to default in the first years of repayment, that students attending two-year and short-course schools default at a higher rate, and that the size of a student's debt does not necessarily correlate with a higher likelihood of default. While this tape has provided us with insight into "who" defaults, it still leaves unanswered questions of "why" students default.

In recent years, it seems that media attention on federal assistance to college student has focused on the topic of loan defaults. The Commission believes that it is time to wrest this monkey from the backs of the students aid programs.

Default rates in the student loan program are declining at a steady rate. Students are repaying their loans. The schools, banks, and agencies charged with collecting

debts owed on government loans are doing an increasingly better job of ensuring proper payment and collecting from those who have defaulted on their obligations.

A recent Policy Brief produced by the American Council on Education calculated the annual default rate in the GSL Program at 3.9 percent. While not perfect, this is a far cry from the days of FISL and the early years of GSL. We have made great strides in this area and we should not continue to be bogged down by misconceptions about the willingness of students to repay their loans.

The Commission also found that states and lenders are taking or contemplating certain measures to keep the default rate in the GSL program at a minimum. These measures include cosignor requirements, credit checks, and even denial of loans to students attending schools with histories of high default rates.

While certain measures may be appropriate, the Commission is concerned that the implementation of some of these rules will result in denying needy students access to GSLs. Lenders, and especially guaranty agencies, must be careful not to arbitrarily restrict students' abilities to finance their postsecondary educations.

RECOMMENDATIONS

At this time, I would like to review the recommendations that the National Commission has adopted in the area of Governance and Administration.

In order to provide for a stable and reliable delivery system, the subcommittee calls for the adoption of a master calendar for the delivery of student financial assistance. This calendar would specify dates for each academic year by which certain elements in the delivery process would have to be completed. These elements would include finalizing family contribution schedules, developing application forms, distributing information, agreeing on award levels, finalizing all regulations, and processing aid applications.

The Commission has developed a detailed calendar in cooperation with Congressional staff and the education community. It is our belief that the calendar developed by the Commission reflects the concerns of the many participants in the delivery process. In light of the recent Supreme Court ruling on the legislative veto, it is crucial that any calendar adopted by Congress be as specific as possible so it is not vulnerable to contradictory interpretations.

In the area of aid delivery, the subcommittee also recommends:

That the Department of Education assume primary responsibility for disseminating regulatory changes and that it develop a catalog of regulations on student aid;

That technological applications to aid delivery be explored and developed cooperatively by the federal government, states, and postsecondary institutions;

That the federal government consider decentralizing certain aspects of the Pell Grant processing system;

That the federal government step-up efforts to disseminate information on the aid programs to students and that more emphasis is placed on informing students and parents at the secondary level; and

That TRIO Programs be continued and expanded as vital supplements to other information and outreach efforts.

In the area of student loan management, the Commission found several encouraging trends. The role that guaranty agencies have played in improving the administrative aspects of the GSL program and in minimizing program default rates should be applauded and should continue to be encouraged by the federal government.

In order to increase the wealth of knowledge on the GSL program and its borrowers, the Commission recommends that a major federal effort be undertaken to collect, assemble, and analyze data on the GSL program and the students who secure these loans. Without this information, policymakers will continue to legislate and regulate based on assumptions and educated guesses.

In other aspects of GSL program management, the Commission recommends:

That efforts be made to standardize application and reporting forms in order to lighten the administrative burden on lenders, guaranty agencies, borrowers, and the federal government;

That all those involved in disbursing, servicing, and collecting student loans work to ensure that borrowers fully understand their obligations and that all possible efforts are made to collect from borrowers before default occurs;

That practices designed to minimize default rates do not inhibit access to student loan capital for eligible students; and

In the area of Governance and Administration, the Commission has assembled, what I believe is, a well-rounded package of recommendations in response to its legislative mandate. Before concluding, today, I would like to thank Mr. Kenneth Reeher, Executive Director of the Pennsylvania Higher Education Assistance

Agency and Congressman John Erlenborn for the hard work and extensive knowledge they have contributed to this effort.

Thank you for the opportunity to appear before you this morning. I would be happy to answer any questions you may have.

Mr. IRWIN. I appear before you as a member of the National Commission and as chairman of the subcommittee that dealt with the problems and challenges of a delivery system for student financial assistance in this country. The report that you have in front of you is called Assuring the Effective Delivery System of Student Financial Assistance and attached to that report should be a flow chart depicting the student financial aid delivery system as it currently exists.

If you have some time you might want to reflect on this flow chart. It is a two-page chart and gives some idea of the complications that we have developed for ourselves in the delivery system. I might point out to you that one of the things that we found out in developing this flow chart developed, which was done with the assistance of the National Student Aid Commission, was in dealing with the chairman, Francis Keppel. He pointed out to us, and I quote, "that once you get all of the way down to the end of this chart, the Lord being with us, some student gets a check and the astonishing thing about it is is that that student does get a check."

I frankly think, as he is quoted saying, "that it is really a testimony to the ingenuity of man that we have been able to accomplish this."

Mr. Chairman, I think you all will agree that it is primarily due to the hard work and talent of many individuals who work to deliver student assistance that if students do get their check and thus are provided the opportunity to pursue a postsecondary education.

The National Commission divided its inquiry into the delivery system into two distinct, yet related areas—the delivery of the Pell grant and campus-based student assistance programs and the management of the guaranteed student loan program.

While these two processes merge at various points in the system, there are separate enough in terms of participation and specific practice to warrant, in our estimation, individual consideration.

At this time I would briefly summarize the findings of the Commission's research in these areas. The Commission sponsored a major study of the cost of delivery of student aid on campus. This effort concluded that campuses are investing a significant amount of money in the administration of the various student aid programs.

To no one's surprise, the NDSL program was found to be the most expensive program to manage on a campus. Aid officers were found to devote most of their resources to staff salaries and benefits. Counseling and outreach activities demanded the most time of staff effort, with application processing a close second.

One of the more significant observations of the study was the impact an automated aid office had. A school located in the State of Pennsylvania that could avail itself of computer resources provided by the State can save thousands of dollars per year in administrative costs. The aid office that has computerized capacity at its disposal can operate more efficiently and can provide students, parents, and college officials with accurate, timely information. There

is no question that automation is the wave of the future in delivering student financial assistance.

The Commission also found that the system for processing Pell grants could be made more efficient in response to the needs of students. Several members of the Commission had the opportunity to tour the Pell grant processing facility in Santa Monica, Calif., and were surprised to find that it is a primary manual, labor intensified operation that has trouble keeping pace with the large number of applications and corrections that it must process.

Greater levels of efficiency could certainly be achieved in the processing of those applications. As a matter of fact, some 40 percent of the 5 million annual Pell grant applications need to be resubmitted for corrections. This process is slow and is especially confusing and burdensome to students.

The Commission also found that information on student aid programs is still not being disseminated in a comprehensive manner. The need for better, timely, and accurate information at the secondary level is important and imperative. High school counselors testifying before the Commission stress the need to provide information on student aid to students and parents in the early years of high school and even at the junior high level.

Federal efforts in this regard have been insufficient in recent years, adding to the confusion, misunderstanding, regarding the amount and type of aid available. As part of this research, the Commission worked with the Department of Education and State Guaranty Agencies to create a data base containing the records of over 2 million GSL borrowers. With the aid of this data tape we have been able to examine some of the characteristics of those who default on their student loans.

We have found, for example, that students are more likely to default in the first year of repayment, that students attending 2-year and short-course default at a higher rate and that the size of the student debt does not necessarily correlate with the higher likelihood of default.

While this tape has provided us with insight into who defaults, it still leaves unanswered questions of why students default. In recent years, it seems that media attention on Federal assistance to college students is focused on the topic of loan defaults. The Commission believes that it is time to correct some of the misinformation that has been disseminated as far as the default rate is concerned.

Default rates in student loan programs are declining at a steady rate and students are repaying their loans. The schools, banks, and agencies charged with collecting debts owed on Government loans are doing an increasingly better job of insuring prompt repayment and collections from those who have defaulted on their obligation.

A recent policy brief produced by the American Council on Education calculated the annual default rate in the GSL program at 3.9 percent. Though not perfect, this is a far cry from the days of the FISL and the early years of the GSL. We have made great strides in this area and we should continue to be bogged down by misconceptions about the willingness of students to repay their loans.

The Commission also found that States and lenders are taking or contemplating certain measures to keep the default rate in the GSL program at a minimum. These measures include cosigner requirements, credit checks, and even denial of loans to students attending schools with a history of high default rate.

While certain measures may be appropriate, the Commission is concerned that the implementation of some of these rules will result in denying needy students access to GSL's. Lenders, and especially guaranty agencies, must be careful not to arbitrarily restrict student abilities to finance their postsecondary education.

At this time, Mr. Chairman, I would like to review some of our recommendations, of our Governance Administration Subcommittee. In order to provide for a stable and reliable delivery system, the subcommittee calls for an adoption of a master calendar for the delivery of student financial assistance. This calendar would specify dates for each academic year by which certain elements of the delivery system would have to be completed. These elements would include finalizing family contribution schedules, developing application forms, distributing information, agreeing on award letters, finalizing all regulations, and processing aid applications.

The Commission has developed a detailed calendar in cooperation with congressional staff in the education community. It is our belief that the calendar developed by the Commission reflects the concerns of the many participants in the delivery process.

In light of the recent Supreme Court ruling on legislative veto, it is crucial that any calendar adopted by Congress be as specific as possible so it is not vulnerable to contradictory interpretation. In the area of aid delivery, the subcommittee also recommends that the Department of Education assume the primary responsibility for disseminating regulatory changes and that it develop a catalog of regulations on student aid.

The technical applications to aid delivery should be explored and developed cooperatively by the Federal Government, States, and postsecondary educational institutions. The Federal Government should consider decentralizing certain aspects of the Pell grant process and step up efforts to dissemination information on the aid program to students and more emphasis should be placed on informing students and parents at the secondary level.

And, of course, as Source of Funds has indicated, the TRIO program should be continued and expanded as a vital supplement to other information and outreach efforts.

In the area of student loan management, the Commission found several encouraging trends—the role that the guaranty agencies have played in improving the administrative aspects of the guaranteed student loan program and minimizing program default rates should be applauded and should be continued to be encouraged by the Federal Government.

In order to increase the wealth of knowledge on the GSL program and its borrowers, the Commission recommends that a major Federal effort be undertaken to collect, assemble, and analyze data on the GSL program and the students who secure these loans. Without this information, policymakers will continue to legislate and regulate based on assumptions and educated guesses.

In other aspects of the GSL program management, the Commission recommends that efforts be made to standardize applications and reporting forms in order to lighten the administrative burden of lenders and guaranty agencies, borrowers, and the Federal Government, that all involved in disbursing, servicing and collecting student loans work to insure that borrowers fully understand their obligations and that all possible efforts are made to collect from borrowers before default occurs. The No. 3 recommendation in that segment is that practices designed to minimize default do not inhibit access to student loan capital for eligible students.

In the area of governance administration, the Commission has assembled what I believe is a well-rounded package of recommendations that are responsive to the legislative mandate.

Mr. Chairman, before concluding today, I would like to thank Mr. Kenneth Reeher, executive director of the Pennsylvania Higher Assistance Agency and Congressman John Erlenborn for the hard work and extensive knowledge that they have brought to this deliberation of our subcommittee.

Thank you very much, Mr. Chairman, and I will stand to answer any questions along with the Chairman.

Mr. SIMON. Thank you very much.

The point you make on the legislative veto, incidentally, is an important one for us to keep in mind--both as far as when we move on reauthorization and how specific we get because if we are not careful, we will end up having good intentions negated completely through regulation.

You did not talk about simplification—and I took a look at your monstrous chart—does your full report go into that somewhat?

Mr. IRWIN. Yes, Mr. Chairman, it certainly does. This is the system as it is today and we are recommending to you and in our full report are recommending a massive calendar which simplifies the system considerably. We negotiated that master calendar with congressional staff and members of the higher education community, showing that we would be able to come to a fair calendar that represents all of the people in the processing and delivery system.

So we feel that we have come forward to you with a master calendar recommendation that is fair and simplifies the system considerably.

Mr. SIMON. How does a master calendar work when you have such a variety of dates for schools opening—some students starting in February, some going to a proprietary school for 8-week programs and so forth?

Mr. IRWIN. One of the things that we were concerned about is that the master calendar would give some stability to the system so that regardless of the time that a student was to begin his educational process, they would know exactly what the process was and would have full information as to how to enter into the student aid system and receive student financial assistance if they had need. It is a circumstance that they were calling for a lot of the forms to be completed 18 months prior to any kind of academic year, which would certainly give the opportunity for students, regardless of when they entered the school year during that year some real opportunity to know what is going on.

We have found out, Mr. Chairman, very frankly, that we have created a system here that would pale the Internal Revenue Service, as far as understanding the forms. We are hoping to simplify those forms so that the average layperson in this country can pick it up, read it and understand what is needed and how to enter the process of student aid.

Mr. SIMON. All right. Thank you very much. I hope we can effectively followthrough on your recommendations.

Mr. IRWIN. Thank you very much, Mr. Chairman.

Mr. SIMON. Dr. Ryder, your report really goes to the heart of what is a major deficiency in the present system. Somehow the programs have been skewed somewhat more than any of us envisioned might happen as we created a lot of these programs. You are not specific in saying what should happen in the expansion of the Pell grant program. Do you have any dollar targets in mind?

Dr. RYDER. If I were to come up with a top of the head figure, Mr. Chairman, I would say start with $2 billion. It is certainly obvious that with the social security changes that I have indicated that you will put back into Pell grant status people who have been in the past financed through the social security system. Even though the figures are now a couple of years old, the GAO suggests that you would have something like $1 billion more needed to supplant social security education benefits out of the Pell system.

It is perfectly clear that the Pell support has eroded not only because of inflation but much more importantly, even at the present day, college tuitions are tending to go up much faster than inflation itself. The failure to fund fully the levels expected for a Pell Grant in the past has provided further erosion.

I would not like to give a specific figure at this time for the guidance of Congress, but it seems to me that an evaluation of the true costs of college attendance today, a projection of the level of assistance which was provided by Pell grants back 3 or 4 years ago and then projected present day costs would come up with a figure which might be too large initially for Congress to swallow, but at least it would be a good target.

Certainly a very significant percentage increase, it seems to me, is required, if we are to provide that basic guarantee of entry into the system for the lower-income folk and the erosion of the percentages of low-income people who have been entering into the system has not been increasing at anything like the rate of the upper income.

What we, in effect, did with the establishment, the expansion of the GSL to a much broader segment of our society was to put in place an entitlement program which became first priority, and as budgets had to be faced each year by Congress, the overall educational aid program tended to be diminished in those other categories which were targeted for the low income. It seems to me that we must look back 3 or 4 years, determine the balance that was in place at that time and then try to re-establish and refund the programs targeted to the needy so that no longer do they suffer the expense of an expanding GSL program, which as the Commission has suggested, is a very good program, but has, unfortunately, tended to have effects that were not intended by Congress.

Mr. SIMON. You mentioned one specific item that we have been talking about informally that would make a significant difference. If we were to make an entitlement of the Pell grant program, that would clearly help to rectify this imbalance that has been created.

You were nonspecific in the other two areas where we have to make a decision. One is whether we keep the 50-percent figure and the second is where that cap ought to be—you used the $2 billion figure, but we will not be authorizing a gross amount; we are going to have to be authorizing a cap at $1,800, $2,025, $3,000, $10,000—it is not likely to be the last figure.

But if you would care to comment a little more specifically, both on the 50-percent figure and at what level you would put the cap, if you were a member of this subcommittee.

Dr. RYDER. I think I would probably at this stage attempt to move the cap very close to what was, I think, proposed earlier by the administration at something like $3,000. It seems to me that the significant expansion of costs in higher education has outstripped greatly the very sluggish growth of the capital in the Pell grant program.

At the present time at my institution, which is not a high-cost private institution, the tuition and fees run close to $5,500 a year. The living costs beyond that put the average student expense at somewhere between $8,000 to $9,000 and in the private sector that is relatively cheap. But the simple fact is that at where Pell presently stands, it does not significantly provide entry into a cost structure of that sort.

I would keep the 50 percent, I think, for the foreseeable future as a target.

Mr. SIMON. Thank you. Dr. Jones, on GSL, I find myself in general agreement with what you have to say. Do we keep the present limitation or what do we do in specific terms there?

Dr. JONES. We found no reason to change the limitations as they currently stand.

There may be, in December, an addendum to that as that relates to graduate education, but I would prefer not to speak to that today and I would rather wait until Dr. Brademas has an opportunity to appear before this committee.

Mr. SIMON. In addition to simplifying procedures, did you talk at all about simplifying the whole program? One of the realities is that when you talk to college presidents, pretty soon you would find that the eyes glaze over when you start talking about the complications of the program. You can imagine what it is like for a counselor in a high school in an inner-city or a rural poor area who has 425 students to handle and doesn't have the time to devote. Those counselors get lost and, unfortunately, some of the students get lost in the process, too. Did you discuss this whole simplification question at all?

Dr. JONES. Yes, and I know that both Commissioner Irwin and Commissioner Reeher would like to address that question. I would also like to say that along those lines we have had tremendous assistance in facing that problem from Dallas Martin and the people in the student financial aid community.

Mr. Irwin.

Mr. IRWIN. If I could respond, perhaps, with an example. One of the things that we found when we went to the Pell grant processor, for example—first of all, it was interesting to note that we were the first people ever to visit the Pell grant processor who have not been members of the Office of Education. So we were the first aliens, you might say, to walk into the Pell grant processor and we thought that was interesting.

But one of the things that we found out about that was that, for example, out of the 5 million, 40 percent of those applications went back to students and their parents because they were inaccurately filled out. We found out that what happened to those 40 percent of those students is that they would go off to school, enter school, and still not have their Pell grant, and many of them never did receive their Pell grant until around Christmastime. In effect, institutions were carrying about 40 percent of the 2.2 million students that received Pell grants up until the time that they finally got all these corrections and edit checks made on their Pell grant application and it was processed.

One of the things that we are recommending to streamline the system is to allow the financial aid officers on the campus to sit down with the student and go through these edit checks and correct the application and turn around and get it immediately back to the Pell grant processor without this tremendous lapse of time that goes on today.

Now that kind of suggestion, allowing that to happen, would certainly, in our estimation, streamline that process and make it a very simple type of process. We found a very difficult and disturbing fact that, for example, you would have a student who would have their application kicked back to them because line seven was not accurately filled out. Line seven was then corrected, it was mailed back and then they received it back because line 10 was not correctly filled out. That is a very cumbersome system and slows the whole Pell grant system down considerably.

I certainly agree that Pell grants are an extremely important base of grant and aid, but it certainly has to have an effective delivery system to get to the students that really need that help because the Pell grant is basically geared at the neediest student in our Nation. So it is those kinds of simplification that we were going forward with and talking about in the area of governance and administration to simplify the system and to get the information—the correct information—to the students and the parents.

In discussion with parents and students, we found out the very thing that you are telling us here today that I think we all know, that the system is so complicated that they have no idea and no way of understanding. One of the backdrop papers, Mr. Chairman, that we started our deliberations on and from was a demographic background paper that dealt with the realities of the fact and proved to us that we are now, as Commissioner Ryder has explained, coming into a period in our history that we are going to have more and more and a large quantity of very, very needy students.

In States, for example, if I could use some examples like California, today in secondary education 42.9 percent of their secondary education are minorities. In States like New York it is 32 percent

in secondary education today. In States like Illinois I believe the figure is around 27 to 28 percent, Mr. Chairman.

We have an awful lot of young people who are falling through the cracks who do not have opportunities. They are not coming from the socioeconomic background to understand these formats and how to enter the system. That's how come we are making our recommendations to push the TRIO program to get that information through high school counselors in a simplified way and to parents and to students and simplify those forms so that people can understand how to access assistance.

In the year 2000 one out of every three workers in this Nation is going to be a minority and we have a very major, major decision to make in this country as to whether that person will have the opportunity—example, in my case, to work at the Boeing Corp. as a productive engineer, or if he is going to have the opportunity to work at some lesser job at a lot less salary. Education is opportunity and I think spread throughout this report is the concern that we have for opportunity. We feel it is being denied because of complications and bureaucratic jargon. So I hope that I have answered the question that we were concerned about that kind of simplification, Mr. Chairman.

Dr. JONES. Commissioner Reeher just reminded me that the subcommittee which he served on, which was chaired by Bill Ford, on special allowances, one of the things that they did discover in their review of the GSL program was that there was not a lack of access. The other thing that I observed in attending some of the regional meetings of the student financial aid administrators and that is that as they have increased their professional working relationships, they are bringing about dramatic improvements at their workshops and seminars and then they, through their national association, are working with the Department. So we do see efforts being made at all levels.

As Commissioner Ryder reminded me, there was testimony in Chicago before his subcommittee by students and counselors—I think that testimony is part of the record that we submitted with our reports—on some of the suggestions that we have forwarded on to the Department, with the help of Dallas Martin and others.

Mr. SIMON. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman. I am going to ask a couple of questions. I can't help but, as I listen to your different testimonies, come up with the conclusion that you have pretty much endorsed the status quo in terms of financial aid with the exception of increased funding. Yet, you talk about the complications, the bureaucratic problems, we talk about the funding problem, recognizing that probably the levels that you would like we are simply not going to able to authorize the appropriations.

Did you do any dreaming or wild-eyed thinking about new approaches to student financial aid and come up with any conclusions or recommendations that might be different and might be a new way in which we can meet the need that is there that government by itself in its present form can't comply with?

Dr. JONES. Maybe each of us can touch on that one.

Mr. GUNDERSON. Sure.

Dr. JONES. In reading the legislative mandate to the Commission, we didn't look upon it as providing us with a lot of running room. There seem to be to us, at least in our interpretation of this Commission, a number of questions that Congress, and in particular the House, was asking that we study. Many of those questions were technical in nature. Further, it did appear to us that based upon our conversations with members of the subcommittee staff here, that there was a need for numerous research studies—information that had not been available to you all to make your decisions at a later date, which is now forthcoming.

So if I might suggest, we felt initially at least that we must first get on with the effort that you requested which was to take a close look at some technical matters, find the technical expertise out there, bring them into research process with us and then cooperation with your staff and bring those findings to you. I think that's what we did basically as to the infrastructure of the GSL program, insurance premium, special allowance, inschool interest.

Then we believed that if it was possible, both in terms of time and funding and resources of the Commission that we would attempt to answer the other 18 questions. To accomplish that, we took 17 of those and we then placed a subcommittee over those topics that related. Here again, we were looking at qualitative measures such as the delivery of the system—was the current system fulfilling access and reasonable choice, what changes had occurred since the 1972 postsecondary commission had met—even though their mandate wasn't as broad as theirs, they did get into the question of financing and financial alternatives.

And then finally—and we did not realize that we were going to be able to accomplish this last task—but the legislation did ask us to take a look at graduate education. That, perhaps more than any other piece of legislation, gave us running room, and I think in December when Dr. Brademas comes before your subcommittee—or at a time that is convenient to you all—you will find that perhaps there we may have done some dreaming, but we are not in a position to comment on that this morning.

I would like to, however, make some observations. As I suggested, even though most of our reports today to you are status quo, admittedly so, there are many other alternatives out there that you all might want to consider. But we want to be careful in this regard. If we tried to create something radically new, we may again confuse that entire community out there that we have been trying to reach—the young person that doesn't necessarily have the economic wherewithal to get to school, who, hopefully, will begin to realize that it is possible, through a combination of Federal, State, and campus-based programs. We don't want to confuse the lending community out there. We don't want to send any more shock waves.

I can't help but recall the trepidation on college campuses, especially among our brighter students in graduate research, when the New York Times reported that the administration in January 1982 was going to recommend to Congress that graduate students would no longer be permitted to participate in the guaranteed student loan program. Shock waves like that are really not needed and I know that that is not what you are suggesting, but I am suggesting

that if we don't try to perfect qualitatively the current programs and examine the findings of this Commission and say, "Yes, we are beginning to reach millions of young people out there who, otherwise would not have an opportunity to attend or take a postsecondary education."

I want to suggest that what you may have put in place is working and can work a lot better as we develop more information and as your subcommittee gathers more information on the current programs.

Dr. RYDER. Perhaps I might add to what David Jones has said. I think that the Commission clearly felt somewhat restricted by the nature of its charge, which was pretty specific, but you will find in the final report of the Commission—and I know specifically in the Sources of Funds Subcommittee report—a very significant number of alternative suggestions which we received as part of testimony as we held hearings in various parts of the country. There are some fairly dramatic and different kinds of programs that have been proposed and submitted to the Commission, but we decided not to come out and advocate any one of them. We felt it was very important to forward to the Congress through the Commission report all of the information and suggestions that have been received so that if there were an opportunity to consider alternative models, that Congress would have the benefit of that testimony.

Ms. LIDDICOAT. Marilyn Liddicoat, member of the Subcommittee on Insurance Premium and also the Subcommittee on Graduate Education. I came on the Commission as a Reagan appointee looking for places to cut this monstrous, $13 billion budget. I also came from a background of having worked my way through college and finally finishing law school at age 30. However, in studying this whole area very carefully. I find that with the exception of a few institutions such as Mr. Ryder's, it's almost impossible for students today to, quote, "work their way through college."

The cost of college education has risen far more rapidly than the cost of living indices. We have found that many of the cures are already in place, such as raising the eligibility requirements—rich kids can no longer borrow money.

There was one small area where we did recommend some dramatic changes on my subcommittee concerning the insurance premium that students paid along with other loan fees when they borrowed the money. We found that some of the guaranty agencies were too rich, some amassing up to $500,000 in reserves, building buildings, living quite well with large travel allowances. If you would look at those recommendations carefully on that, there is a lot of money to be saved in that area. In fact, one guaranty agency based on our report voluntarily returns $11 million to the Government because they simply had too much money. So we were watching the dollars quite carefully.

Mr. REEHER. If I might, speaking to the return of those funds, that was from, I believe, a nonprofit agency, and some of us that are under the gun as far as State legislators are concerned, find that the way that Federal law is written, it calls for a return of those funds under certain standards that have been set by the Congress and it is very difficult for an administrator to voluntarily return those funds when the law does not call for that.

In response to the question, there's a saying, "If it ain't broke, don't fix it," and I think the Commission found that the Congress did a very respectable job in developing opportunity for higher education. The problems I think we have are twofold. One is funding, and that will probably never go away, and the other would be the mechanics of how it works. For example, as Dr. Ryder pointed out, if you start dreaming, there is roughly 10 percent of the corporate potential being used. So we could dream that we might use that 100 percent.

We also have in there a recommendation that the college work-study program would begin to function in the private sector, where you could get academic-related kinds of jobs and if you dream, you might get some corporate participation and the work-study program there, I think, could become another very substantial, self-help kind of program similar to the guaranteed student loan.

As far as the loan program is concerned, when you get over into that sector, you bring a whole new actor into the game in that you have the private sector lenders. As we have pointed out, that program leverages the Federal dollar on at least a 2-to-1 basis. So when you try to change the mechanics of how that works you have to be very careful that you don't disrupt the third party participation.

We call for the utilization of electronic delivery, which really is a dream. We have been very much involved in that in Pennsylvania. The State of California is trying to move into electronic delivery of student aid, the college board, through its project transaction is trying to do that and we in Pennsylvania over the past year we have had 8 banks and about 1 dozen colleges that have what we call a "paper-free loan application" where it is done basically electronically.

The student fills out a form and sends it into us and then we transmit electronically to the colleges and the lenders the data so that we can speed that up. I think the electronic delivery of student aid is maybe the dream that is built up into this report.

Mr. GUNDERSON. My time is well beyond, but let me just finish with one final question on this master calendar. What is it, for the first time in 5 years we have passed the education appropriation bill in this Congress and there seems to always be a problem. As you know, tonight we are trying to get a continuing resolution passed to keep the Government operating. Recognizing that problem, do you really think the master calendar when Congress never does its part on the appropriation side?

Mr. IRWIN. Well, obviously, Congressman, there is no way that anyone except Congress themselves, because they are elected representatives who can dictate their own schedule and we are not suggesting that.

Mr. GUNDERSON. It might not be a bad idea.

Mr. IRWIN. But there is a circumstance that we do feel that working with the participants that are major actors in the calendar that we are recommending, at least all of that mechanism can be in place—simplified forms, dates for information to the campus, dates for information to students and parents. Then I think all of us will then have to wait for Congress, of course, to act on their own schedule as far as the funding is concerned. Appropriations

questions are the purview in this democracy of the Congress and we wouldn't suggest to be involved in that.

What we are hoping to do is to get everything in place so that when that decision is made, the system works and doesn't break down. That's the major concern that we are looking at now.

If I might also, on the previous question that you suggested, one of the things that we did dream about a little bit is the fact with so many students in the next 10 years coming in and accessing and having to access the grant-type aid, we did think that we would probably have to be sensitive to the middle class of the Nation perhaps with some look at setting up an educational IRA account or perhaps allowing those people to use their current IRA with a portion of those funds to be used for their educational opportunity for their students, for their own children.

We are suggesting an AGI of some $40,000 in the report on source of funds and that is one possibility of being able to set up a program to allow those people to enter education as more and more of the resources are going to have to go to needy and needier students in the Nation on the basis of the demographic information that we have been working from.

Mr. GUNDERSON. OK. Thank you, Mr. Chairman.

Mr. SIMON. Mr. Penny.

Mr. PENNY. I have no questions, Mr. Chairman.

Mr. SIMON. Mr. Erlenborn.

You were mentioned favorably in your absence by one of the Commissioners, incidentally, at the end of Commissioner Irwin's testimony.

Mr. ERLENBORN. Thank you, Mr. Chairman.

Let me say, first of all, that when I came in the room I wasn't quite sure whether I should sit down there with my fellow Commissioners or up here with my fellow Congressmen, but on balance I thought I would rather ask questions than answer them so I came up here. [Laughter.]

Having said that, let me then answer a question. I would like to, first of all, endorse the answers given by my fellow Commissioners to the first question asked by Mr. Gunderson about whether we should have recommended imaginative, new ways of providing aid for postsecondary education.

I would just make this further observation. Personally, I think we already have too many ways. We have two grant programs, we have three or more loan programs and my fear is that politically we would probably jump at the opportunity of passing a new student financial aid program, particularly if we could have our individual names associated with it—like the Pell grant. I wish that were the Erlenborn grant instead. [Laughter.]

Mr. GUNDERSON. It would be much smaller. [Laughter.]

Mr. ERLENBORN. You're right.

But I don't think we need to proliferate the means for delivering student financial aid, but as was observed by the Commissioners, we have in place a good system that needs to be fine-tuned, improved, and then find ways to have sufficient funding for the programs.

Getting to that question of funding, the Commission found that the Federal appropriations for Pell grants, supplemental grants,

and college work-study had all suffered as a result of more money flowing into the guaranteed student loan programs. My colleague, Mr. Ford, isn't here to defend himself but let me say that I thought that was a result of the Middle Income Student Assistance Act and one that I thought could be anticipated. I said back then that I feared that we were going to put more of the available resources into the guaranteed student loan program to the disadvantage of the lower income students who depended more heavily on the grant programs. I think history has borne that out and we have taken some remedial steps.

Let me say that the Commission did find that there was this adverse effect on the grant programs. Now I can get to that enjoyable part of asking my fellow Commissioners to answer the question: What are we going to do about it? What can Congress do to put in place some protections for the grant programs so that in the future the loan programs will not adversely affect them?

Mr. REEHER. I would suggest lowering the interest rates.

Mr. ERLENBORN. You mean interest rates in the economy not just in these programs?

Mr. REEHER. Yes; I think that has been the one thing that has caused the cost of the guaranteed loan program to rise unexpectedly in the last couple of years. Other than that, it's my opinion that there have been substantial reductions in the eligibility of certain families as far as GSL is concerned.

We have also already reduced costs by origination fee, change in the interest rate and movement of a portion of the borrowing to the plus program. It's my opinion that if there are further substantial cuts, which could be made, but their access to higher education will be affected and it could be that people would not go or that their choices would be impacted by the reduction of aid. That's my personal opinion, not a report from the Commission.

Dr. JONES. I would like to second that and add to what Commissioner Reeher has just said, that as you proceed to board reauthorization, always keep in mind that we have been through in the last 6 years a very dynamic time in terms of the economy, both in terms of the interest rates and their effect on these programs and the effect of inflation on higher education.

So by taking those into account as you look to the future, I think it might be helpful. I think sometimes we make a poor habit of citing to you some statistics, especially percentages, that can be very misleading at this particular point in time. One of the questions I have raised from time to time because of our recommendations on the special allowance is are we absolute on our position on the special allowance formula. There I would just like to pass on and to suggest that you will note in the full report that the subcommittee says that, "It is not possible to determine from historical data if the current special allowance rate is the most equitable from the point of view of lenders and the government."

Here again, I only want to caution that we take a look at each piece of those loan programs one more time before making some final decisions and, hopefully, as Commissioner Reeher has said, with the help of a stronger economy, a lowering of interest rates, we might not have a loan program that is so expensive that it is beginning to affect a much-needed expanded Pell grant program.

Mr. ERLENBORN. Let me make the comment to respond to Commissioner Reeher's suggestion of lowering the interest rates, I think that is absolutely right. That same answer is the answer that you can give to almost any of the other problems facing this country at the present time. If we lowered interest rates we would improve the capacity of people to buy automobiles and buy homes and we would put more people back to work. There is just no question but what lowering interest rates would have a good effect across the board.

The problem, as we are all aware, is to find out how to lower those interest rates and many people think it's to get the Federal budget under control, it's fear of high deficits that keeps the interest rates up. How we will ever solve that, I don't know. I see a lot of posturing, I see a lot of dramatic, if not effective, action by the Congress in recent weeks, refusing to extend the Federal debt limit. That's pretty dramatic but it's not very effective—all we are doing is removing the ability to pay the bills for those things we have already bought. That's reneging on your debts. That's not a very good way to get your budget into balance.

The other is earlier this week the House rejected the continuing resolution. Well, that's, again, dramatic but not very effective and we will see what happens today. I think we will probably take up about the same one that was rejected 2 days ago and pass it. It seems like some people wanted to make a point and having made that point, they will go back to their spending ways.

So how we will ever achieve lowering the interest rates is something that so frustrates me I think I am going to give up the process and leave the Congress at the end of next year.

Thank you, Mr. Chairman.

Mr. SIMON. Thank you.

Mr. Petri.

Mr. PETRI. I have no questions.

Mr. SIMON. We thank you very, very much for your testimony and your contribution and we will be weighing your words carefully as we move toward reauthorization.

The subcommittee stands adjourned.

[Whereupon, the subcommittee was adjourned at 11:25 a.m., on November 10, 1983.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF DR. KENNETH G. RYDER, PRESIDENT, NORTHEASTERN UNIVERSITY

Mr. Chairman and Members of the Subcommittee, I am pleased and honored to have the opportunity to testifying this morning. I come before you as a member of National Commission on Student Financial Assistance and as chairman of its Subcommittee on Sources of Funds.

The federal government's commitment to help students pay for college has as its foundation the belief that no American should be denied the opportunity of going to college for lack of money. Over the years since passage of the Higher Education Act of 1965, myriad financial assistance programs of increasing sophistication have been developed to answer the varying needs of young people from a wide variety of economic circumstances. The Commission has found that all of these programs generally serve their targeted populations well and are efficient mechanisms for encouraging wider participation in higher education. On the other hand, the Commission—and particularly the Subcommittee on Sources of Funds—has found that a quiet and, I think, unintended shift of attention and funding toward programs for students from middle and upper-middle income families has led to proportionately less

federal support for the Pell grant program designed to aid the poorest Americans. In my view this shift, however subtle, is unacceptable. In reauthorizing the Higher Education Act, this committee and the Congress as a whole should adopt as their highest priority the reinstitution of a truly adequately funded basic grant program as the foundation of student financial assistance so that people of scant economic means can get a college education. Otherwise, we will drift into becoming a country where only the wealthy can be healthy and wise.

Our research suggests that federal student assistance over the past decade has resulted in progress towards the goal of providing access to postsecondary education for all students, but much more remains to be done. Although the Middle Income Student Assistance Act (MISAA) was successful in reaching its targeted population, inflation over the decade has effectively eliminated the increased resources to pay for college that the federal government intended to provide through student aid programs.

This situation has been worsened by the government's failure fully to fund many provisions of MISAA and the 1980 Higher Education Amendments, particularly as they relate to maximum Pell grants, which would have increased federal aid to low-income students in real terms. Our data show that low-income and minority students have been disproportionately affected by reductions in student financial assistance. This has occurred because funding for Pell Grants has been disproportionately lower than funding for the Guaranteed Student Loan (GSL) program. Although Pell Grants and campus-based awards are technically forward-funded, the reality has been that funds are committed before they ae appropriated, usually resulting in these need-based programs losing anticipated funds.

Thus, the GSL program with its entitlement status has consumed an increasing share of federal funds for higher education, producing a budgetary trade-off with the major student aid programs that are more heavily targeted on needy students. In effect, if not in intent, student aid policy has been moving away from the concept of using Pell Grants as the foundation for educational financing.

The Commission also found the response to the reduction in and eventual elimination of social security student benefits grossly inadequate. There is much evidence to suggest that most of those who received assistance under this program needed it. According to a study conducted for the Commission by David P. Rosen, "on balance, OASDI (Old Age Survivors Disability Insurance) student beneficiaries are poorer and more likely to come from working class families than students attending college without such benefits." Whether or not this form of student aid was appropriately targeted, the fact remains that when the program is finally terminated in 1985, over $2 billion of the $8.6 billion available for student aid in fiscal year 1982 will have been eliminated entirely—a 23 percent decrease in total federal funding without even accounting for the hoped-for continued savings in the GSL program owing to lower interest rates. Moreover, few additional funds have been authorized or appropriated to replace or redirect these lost student aid monies, in spite of the fact that the GAO has estimated that merely to offset the loss of Social Security benefits, Pell grant benefits alone would have to be increased by almost $1 billion during the period 1981 to 1985.

The subcommittee has concluded that without changes in student aid policy, projected demographic changes will exacerbate the imbalance that already exists. In the next decade, there will be a rapid decline in the number of 18–24 year olds from middle income families and a relative increase in the number of 18–24 year olds from low-income families. Since trends show an increasing focus of aid toward middle income students, despite their declining numbers, the growing number of low income students will continue to experience increasing inequality in obtaining funding if federal policy is not changed.

Two studies for the Commission by Applied Systems Institute comparing college students in 1974 and 1981 uncovered some surprising facts that reinforce the conclusions I have set forth. Among the most significant findings of the studies were:

More than twice as many students from families with incomes above $20,000 (in constant 1981 dollars) received federal assistance in 1981 than in 1974.

At the same time, inflation combined with recession led to greater inequality in the distribution of family income. From 1973 to 1981 the number of families below the proverty line has increased by over 2 million or by more than 40 percent. The number of low-income families that needed assistance in attending college has also increased in the last decade.

The percentage of the eligible 18 to 24 year old population attending college was up from 26.4 percent in 1974 to 28.0 percent in 1981 or from 4.9 million to 5.7 million students. The participation rate for women was up, while that of men remained

constant. Blacks showed a modest increase in participation rate, while whites showed a marked increase.

While the aggregate amount of student aid appears to have increased significantly from 1972 to 1982, the amount of the average award has not increased as fast as the tuition paid by each student. Consequently, rising tuitions have negated almost all of the dollar value of increased student aid awarded.

The biggest growth in the percentage of students aided between 1974 and 1981 was in the higher income levels. Among lowest income students, there was either a decline in the percentage of students aided or a smaller increase than for higher income students.

Lower income students were most likely to receive a smaller award from all federal sources combined in 1981 than they were in 1974. They also were more likely to receive an award of less than $1,000 in 1981 than was the case in 1974. Higher-income students in 1981 were more likely to receive a total award exceeding $1,000 than they were in 1974.

These findings, along with testimony I have heard around the country, suggest that federal financial assistance does affect access and choice. Over the years 1973 to 1981 these effects have been, it appears, both positive and negative. Clearly, without the increases in funding, many students would have been forced out of college or barred before they got in the door. On the other hand, there appears to have been a subtle shift of aid toward higher income students, if not away from lower income students.

It is fair to say, then, that the minimal levels of funding provided by the federal government during the past few years, especially in light of inflationary pressures, have at best prevented the wholesale exodus of students from poor and near-poor working families from our colleges and universities. Instead of making college more accessible and a more realistic option over the past decade than it had been in the preceding decade, federal funding has failed to continue the pace necessary to accommodate people who want a college education but lack the financial means to obtain it.

The Commission also undertook a thorough analysis of the Guaranteed Student Loan program, conducted by the accounting firm of Touche-Ross. Touche-Ross found that the average student borrower under the GSL program usually pays in real terms (adjusted for inflation) an effective interest rate of close to zero; in many instances, the interest rate is less than zero. This occurs because in an inflationary economy time lessens the value of the dollar, because all payment of principal is delayed until after the student leaves school and because, when repayment begins, the interest rate paid by the borrower is below market rate. At higher rates of inflation the incentive to borrow to finance a college education is increased—and the cost to government is increased—because the interest rate to the student is fixed at below market rate. The total federal subsidy is structured to provide the highest benefits to students who borrow the largest amounts of money and who spend the longest time in college, because the federal subsidy is highest when the maximum amount is borrowed and repayment is delayed as long as possible. These factors tend further to bias the system against poorer students.

The GSL program imposes substantial costs on the federal government, but approximately $2 of capital is generated by every $1 of federal cost, making the GSL program a successful mechanism for delivering credit to students for the purpose of attending college without imposing on those students unreasonable future financial hardships. We did find, however, that adjusting the guarantee mechanism and removing the student insurance premium would lead to savings for both the students and the federal government without damaging the integrity of the program.

From its studies the Commission has drawn several broad recommendations which we hope will be useful to Congress in the reauthorization process. Among them are:

A large federal grant program serving low-income students, such as the Pell Grant Program, should be continued and expanded. Funding for the program should more accurately reflect the current cost of attendance faced by students. Funding for Pell Grants over the past several years has not been sufficient to account for high inflation and reductions in other student aid programs.

Campus-based grant and work-study programs should be continued and expanded, consistent with the funding levels for other federal student aid programs. Funding for these programs should more accurately reflect the current cost of attndance faced by students and should continue to be targeted to low-income and minority students to help meet unmet need.

More emphasis should be put on work programs like college work-study and cooperative education as sources of student financial assistance. Similiarly, more emphasis should be put on the private sector, which can play an important role by providing both employment for cooperative education recipients and employment-based tution aid.

Funding for TRIO programs should be increased so that the services can be made available to an increased proportion of eligible students.

Federal public assistance programs, such as AFDC, Food Stamps, Medicaid, and public housing should be reviewed by Congress with an eye to eliminating various existing disincentives for unemployed and poor persons to receive retraining and education to assist them in reentering the work force.

In the coming reauthorization process, Congress has the opportunity and responsibility to set the goals for higher education over the difficult remaining years of this decade. I know that this subcommittee will not, as it has not in the past, turn away from the commitment to equal educational opportunity for all. With the arrival of the knowledge based information age, now more than ever higher education represents an investment not only in the future of individuals, but in the economic and technological future of our nation. The price tag will not be small, but in terms of the cost to the country of the big ticket items in the federal budget, higher education comes cheap and represents a real bargain. A small investment today will reap large dividends tomorrow.